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EAST ASIA

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Japan: Oil Politics

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Tokyo is sending a delegation to Peking later this month to begin difficult negotiations for a long-term oil agreement covering Japanese purchases through 1980. That Japan will import more oil from China is not at issue; the question is how much.

The Chinese are counting heavily on a Japanese commitment to increase purchases substantially each year to a level of 1 million barrels a day in 1980, compared to less than 160,000 this year. Japanese oil firms, on the other hand, are talking only reluctantly about taking 400,000 to 600,000 barrels a day five years from now.

The stakes are large. If the Chinese cannot sell more than 600,000 barrels a day to Japan and have difficulty finding other markets, they could lose as much as \$2.7 billion in hard currency foreign exchange earnings in 1980 alone. Such a loss would slow the growth of the oil industry and hamper Peking's ability to import other types of badly needed technology.

Coming to a mutually acceptable oil agreement may be as important as any issue in Sino-Japanese relations. China places great value on the economic benefits it gets from dealing with Japan. The extent to which they are available will be critical to overall relations in coming years.

Until recently, the Japanese Ministry of International Trade and Industry strongly supported China's position, arguing that insurance was needed against another Arab oil cutoff and that it was in Japan's interest to establish itself firmly as China's major customer for oil.

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Lately, the Ministry's position has become more ambiguous. Japanese oil companies argue that with world oil in ample supply it would be advantageous to withhold a firm commitment for another year or two. If a long-term pact is unavoidable, the companies want a commitment of no more than 400,000 to 600,000 barrels a day by 1980.

Even at this level, the companies are insisting on a lower Chinese price than the present \$12.10 a barrel. They also want Chinese purchases of Japanese oil equipment, and Japanese government subsidies for modifications of oil refineries that will be necessary to handle large amounts of Chinese crude.

The Minister of International Trade and Industry, who originally was enthusiastic over China's proposal, has now cooled off on it. He was impressed by the potential of Indonesia's oil industry during a recent visit to Jakarta and is apparently sympathetic to an Indonesian request that Tokyo increase its imports of Indonesian oil by some 600,000 barrels a day over the next five years.

Indonesian officials are concerned that Chinese crude is selling for slightly less than Indonesian crude, and they are now saying privately that their oil is "slightly overpriced." They also claim that the 10 to 15 percent price rise expected soon by members of the Organization of Petroleum Exporting Countries will not affect Indonesian prices.

The resistance of Japanese oil firms and the wavering of the Ministry of International Trade and Industry has complicated the position of Yoshihiro Inayama, board chairman of Nippon Steel and president of the Japan-China Economic Association, who has been acting as a middleman with the Chinese. Inayama is one of the most prominent members of the Japanese *zaikai*, or business elite.

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Earlier this year, Inayama promised Chinese leaders that he would promote China's oil trade with Japan. [REDACTED] Inayama now believes that it is virtually impossible to meet Peking's goal of 1 million barrels a day by 1980. He thinks that Japanese firms would agree to take 600,000 by that date if other stipulations are met, and he is preparing a formal proposal to increase imports of Chinese oil by 100,000 barrels a day per year beginning in 1977, with the 1980 total set at 600,000.

To assuage Chinese feelings, he will try to put Japan's commitment in 1980 at the "600,000 to 1,000,000" range.

Such an ambiguous Japanese proposal will almost certainly be unacceptable to China. Peking believes that a firm long-term commitment on oil purchases is essential to the orderly development of China's petroleum industry.

With the fifth five year plan (1976-1980) being drafted, Chinese planners need to know how much oil income can be counted on to finance purchases of other types of modern machinery and equipment. Maximum oil sales to Tokyo would also help reduce China's sizable trade deficit with Japan—a deficit that reached \$840 million in 1974 and will grow larger this year.

The Chinese have invested heavily in their oil industry in the last decade and crude oil production has increased rapidly during this period. China began to produce crude oil in excess of domestic requirements, including commitments to North Korea and North Vietnam, in 1973 when 20,000 barrels a day were sold to Japan. During the Middle East oil crisis, Japan contracted for 100,000 barrels a day in 1974. In 1975, there were contracts for 156,000.

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Peking has been disappointed with Japanese purchases during the past year or so. Japan failed to take almost a fifth of the 100,000 barrels a day contracted for in 1974 because of the economic slowdown.

Chinese officials are taking a reasonably conciliatory line toward the Japanese as the negotiations begin.

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[REDACTED] has remarked privately that the question of price is negotiable, and that China would certainly consider buying Japanese oil equipment--provided that a satisfactory agreement on long-term commitments could be reached.

The Chinese almost certainly recognize that for now there is no good alternative to the large Japanese market. American oil companies presently see Chinese crude only as a supplementary resource for satisfying their Asian market.

In time, Peking could induce international oil companies to take larger quantities of Chinese crude by allowing them to participate in the development of Chinese oil resources, particularly those offshore that are believed to be extremely promising. Peking has held back, unwilling to modify its long-standing policy of "self-reliance."

Tokyo clearly is in a better position as the negotiations start. The competition between China and Indonesia provides Tokyo with an added bargaining tool that can also be used in negotiations with Indonesia.

Tokyo is not faced with an agonizing choice of favoring either China or Indonesia; Japan might even be able to satisfy the maximum demands of both.

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between now and 1980 will be 2 million barrels a day--a figure roughly comparable to the combined increases in sales demanded by China and Indonesia. At a minimum, the Japanese must be pleased by the prospect of substantially reducing their dependence on Middle Eastern oil.

Even so, Tokyo is uncertain about economic trends over the next several years. This reinforces Tokyo's caution about overcommitting itself on long-term contracts. In the competition between China and Indonesia, Tokyo will be inclined to favor Peking.

Indonesia enjoys a substantial trade surplus with Japan; an increase in Indonesian oil exports to Japan is unlikely to bring a corresponding increase in Indonesian imports from Japan. China, in contrast, has a severe deficit with Japan which, if not corrected, may act as a drag on economic dealings between the two countries.

In political and strategic terms, China looms far larger to Tokyo. It is clearly in Japan's interest, for example, to balance its multi-billion dollar investment in Soviet-Siberian resources by boosting its trade with China, thus maintaining a rough balance in economic relations with its two communist neighbors.

The oil negotiations with Peking will be long and difficult; they almost always are when the Chinese and Japanese discuss something important. We believe that Tokyo will finally agree to accept more oil from the Chinese than Japanese oil firms are now talking about, though probably less than the 1 million barrels per day China hopes to export in 1980. (SECRET NO FOREIGN DISSEM/CONTROLLED DISSEM)

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The Two Koreas, the Nonaligned, and the UN

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North Korea's acceptance at the nonaligned conference in Lima last month is the latest example of Pyongyang's diplomatic progress. Follow-up reporting from the conference provides some interesting insights into how Pyongyang succeeded--and South Korea failed--to gain entry to the nonaligned. The Lima outcome does not seal a diplomatic defeat for South Korea at the UN General Assembly this fall, but it does not bode well for Seoul's prospects.

The Events in Lima

As the conference opened, initial tallies indicated that a substantial minority of the 80 or so countries represented, perhaps as many as a third, were sympathetic toward South Korea and favored an even-handed treatment of the two Koreas--that is, either admitting or rejecting both. At a preliminary leadership meeting at Lima, four foreign ministers from Malaysia, Kuwait, Senegal, and Liberia, spoke in favor of Seoul's membership application. Seoul's backers pointed out that North Korea has alliances with China and the Soviet Union, and argued that South Korea's credentials as a "non-aligned," developing state were as good as Pyongyang's.

South Korea's supporters were not vigorous enough, however, to turn back the militant Pyongyang backers. In the full plenary session at Lima, only Saudi Arabia and a handful of other countries spoke out in behalf of Seoul. North Korea's more vocal supporters included such longtime nonaligned leaders as Algeria and Yugoslavia--both of which were visited by Kim Il-song last spring--and South Vietnam, which now is enthusiastically playing a role in nonaligned affairs.

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South Korean diplomats, in fact, believe that an impassioned speech by South Vietnam's Madame Binh at the plenary was a critical factor shaping the Lima decision on Korea. Madame Binh hit hard at the US troop presence in South Korea, strongly attacked Seoul for sending forces to fight in South Vietnam, and threatened to walk out of the conference if South Korea were admitted.

Those countries sympathetic to South Korea, including Asian states such as Malaysia, Indonesia, and Singapore--which would have been most likely to influence the conference in Seoul's favor--reportedly were intimidated at the plenary when they saw how vehemently the South Vietnamese and the other militants opposed the South Korean and Philippine applications. During the plenary discussions there was loud, almost continuous applause and other noises from Pyongyang's friends on the floor. The Peruvian foreign minister, who chaired the plenary and made some attempt to give Seoul's allies a hearing, finally found a "consensus" for Pyongyang's entry, but not for Seoul's.

The North Koreans also succeeded in having included in the final documents of the Lima conference some of the main points of their draft UN resolution, including the key call for the withdrawal of all foreign forces from South Korea.

The Reaction in Seoul

President Pak is said to be extremely upset by the Lima setback; his close aides say they were misled by Foreign Minister Kim Tong-cho's overly optimistic view of Seoul's prospects at the conference and that Kim unnecessarily damaged South Korean prestige by attending the Lima conference personally. Rumors that Kim will be fired are now making the rounds. The South Koreans are taking some comfort

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from the fact that the successful US - South Korean Security Consultative Meeting, with Secretary Schlesinger in attendance, took place at the same time as the nonaligned conference and helped draw attention away from Lima.

Seoul recognizes that its friends among the developing countries will have a better chance to show their strength in the formal voting of the UN General Assembly than at Lima, where the "consensus" principle is often a euphemism for steamroller tactics. The South Koreans are concerned, however, that Lima will add to Pyongyang's diplomatic momentum and seriously complicate Seoul's efforts at New York to first pass the pro - South Korean resolution preserving the armistice and then defeat the pro-Pyongyang draft that calls for US withdrawals.

Until recently, South Koreans and other observers have generally believed that the "friendly" resolution had a good chance of passing and that the "hostile" draft would be difficult, but not impossible, to turn aside. Now, some top South Korean officials are saying that the "friendly" UN draft could lose by up to three votes, and they are increasingly gloomy about the chances of defeating Pyongyang's resolution. The South Koreans may be overly pessimistic in the immediate aftermath of Lima, but there is little doubt that Pyongyang's diplomatic prospects have been given a significant boost. (SECRET NO FOREIGN DISSEM/CONTROLLED DISSEM)

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North Korea: A Chill Wind from Moscow

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North Korean - Soviet relations have been decidedly cool this summer, despite a claim by Pyongyang that Kim Il-song will soon visit Moscow. Such a trip would logically follow Kim's summit in Peking this April, but there is nothing in the public statements from either Pyongyang or Moscow to indicate any improvement in relations prior to a visit.

Word of an impending visit was given Japanese newsmen by Kim Yong-nam, director of the International Department of the Korean Workers Party; he noted that no date had yet been set. Kim's remarks were reported by the Kyodo news service of Japan on July 27, but were not replayed by the North Korean press. There has been no subsequent comment on the subject.

Media coverage of the anniversary of the July 1961 treaty of friendship, cooperation, and mutual assistance was unusually low-keyed in both capitals. KCNA carried no comment, perhaps attempting to obscure the fact of North Korea's defense ties with the USSR prior to Pyongyang's late August bid for membership in the nonaligned conference. A Tass summary on July 5 of an *Izvestia* article glossed over the treaty in a sentence, moving on to the more cherished theme of Moscow's importance in North Korean trade and economic development. The Soviets again referred to their construction of 30 industrial facilities in Korea, and lest anyone think Pyongyang was being given something for nothing, the article outlined the terms of repayment.

The chill was also evident in the handling of the 30th anniversary of Korea's liberation from Japan on August 15. Pyongyang dropped much of its

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traditional rhetoric about Soviet assistance in the liberation and the reconstruction. The USSR, on the other hand, emphasized its aid contributions, giving only perfunctory support to North Korean reunification goals. In contrast to past practice on the five-year anniversaries of the liberation, the Soviets did not send a delegation to the Pyongyang observances. (CONFIDENTIAL)

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North Korea: Party Congress Plans

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Kim Il-song's revelation to the Japanese press last week that the sixth congress of the Korean Workers Party (KWP) might be postponed from its scheduled date of 1976 until 1977 may reflect economic and political uncertainties in Pyongyang. In theory, party congresses meet at four-year intervals; in practice, as many as nine years have intervened. The fifth party congress met in November 1970; the scheduling of the sixth congress for 1976 was apparently intended to coincide with the targeted completion date of the current economic development plan.

North Korea's shortcomings in meeting production goals for 1976 are minor compared to the economic failures of the 1960s that forced a five-year postponement of the last congress. Nevertheless, a blitz of editorializing in the domestic press reflects serious concern about the current plan's completion on schedule. Pyongyang has not been above exaggerating economic successes for public consumption, but it is apparently a matter of pride and politics that Kim face his party colleagues only when the plan is near relatively honest fulfillment.

A play for time might also result from the need to rethink the next economic development plan. Pyongyang's foreign payments difficulties show no early signs of relief, and North Korea is being forced to scuttle plans for significant new buying on the Western market this year and next. As a consequence, industrial expansion targets could require downward revision. High level personnel shakeups are occurring in connection with the trade problem and may indicate that the wisdom of

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pursuing trade with the West and the means of remedying the trade deficit are still subjects of controversy.

Additionally, Kim Il-song may need an extra year to deal with political problems--such as the succession issue. South Korean and Chosen Soren sources claim that Kim Chong-il--alleged son of the North Korean president--has been designated his father's successor and is already holding important party posts. But the continued absence of any reference to the younger Kim in the national newspapers raises the possibility of resistance among key KWP leaders to his succession. In addition to creating a party leadership more sympathetic to Kim Chong-il, Kim Il-song may be pondering replacements for the aged, and increasingly infirm, top echelon of party and government officials. This would necessitate the sensitive job of choosing younger party cadre whose personal loyalty has not been tested in the prewar guerrilla struggles against the Japanese and the early postwar factional struggles of the KWP. (CONFIDENTIAL)

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An Ill Kim Il

Premier Kim Il, the third highest ranking member of the Korean Workers Party has been missing from public functions since early June, apparently suffering an extended illness. In mid-July, Kim Il-song admitted to visiting Japanese legislator Tokuma Utsunomiya that the 65-year old premier was indeed ill. Kim Il disappeared from public view for eight months in late 1973 to mid-1974; when he reappeared, Pyongyang acknowledged that he had received medical treatment in Romania. The nature of his illness is unknown. Now, as during Kim Il's extended absence in 1973-74, the premier's name is being used in state-to-state congratulatory messages, and he could retain his post, even if debilitated, until his death. (OFFICIAL USE ONLY)

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Status of Iranian Loan

Embassy Tehran has confirmed the failure of the Iranian government to authorize an advance payment for the purchase of North Korean commodities. Under the terms of a loan and trade agreement signed in March, Pyongyang had anticipated the early receipt of two \$100 million payments. Now, however, Iran has decided to defer payment until final agreement is reached on procurement details; there has been no forward movement on the contract negotiations. Pyongyang is in arrears \$200 to \$300 million in trade with the West and was depending on the Iranian advance to help meet debt obligations. (CONFIDENTIAL)

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Laos: The Party Rules
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The coalition Provisional Government of National Union is still the nominal government of Laos, but communist pronouncements following the liberation rally on August 23 make it clear that the Lao Communist Party will now govern Laos.

The rally signaled a basic change in the status of the national coalition government, even though it was billed as only a celebration of changes in local government. The communist reports stressed that the rally represented the culmination of 30 years of struggle and the replacement of the "reactionary administration" with a "revolutionary administration." The term "revolutionary administration" is not defined, but the changes are compared to previous changes in national governments, not to alterations in local governments. The impression left is that the communists now will control national affairs as well as local governments throughout the country even though the "liberation" did not legally alter the coalition's status.

The numerous commentaries broadcast since August 23 give little attention to the coalition. Some reported pro forma pledges of support for the coalition were made by speakers at the rally, but none of the broadcasts elaborates on any role for the government--and most did not mention it at all. Instead they emphasize that the people must now work to build the new society under the "wise and correct leadership of the Lao revolutionary party." The Lao revolutionary party is the usual code name for the Lao communist party which until a few weeks ago was so secretive that most Lao did not know of its existence. The people are exhorted "to understand and have utmost faith" in the party leadership, and

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they are told that the new local revolutionary administrations throughout the country must lead in "implementing the party's policies." The clear message is that the people should henceforth look to the communist leaders, most of whom are still in Sam Neua, rather than to Souvanna Phouma and his coalition colleagues in Vientiane.

The communists have undercut the formal government by ignoring the Interior Ministry in Vientiane which is supposed to be in charge of provincial and local governments. They are transmitting policy and other directives to communist officials now in control of local governments throughout the country through party or Pathet Lao military chains of command emanating from Sam Neua.

Communist officials in Vientiane have indicated that they will maintain the coalition until after "general elections," which may be held in the spring of 1976. As the party exerts more influence, however, the government will be relegated to carrying out policies set in Sam Neua and to maintaining contacts with diplomatic missions. (CONFIDENTIAL)

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Malaysia: Victory Over a Rebel
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Kuala Lumpur looks on Sabah Chief Minister Mustapha's promise to retire on October 31 as a major, even though qualified, achievement.

The leader of the Borneo state has long been an embarrassment to the federal government because of his repressive rule, his financial extravagance, and his support of Philippine Muslim rebels. Earlier efforts to trim his sails had failed. Mustapha turned down a cabinet post in Kuala Lumpur offered him as a means of bringing him to the Malaysian capital and removing him from his seat of power. More direct federal action against Mustapha has been discouraged in the past by the limited sanctions available to Kuala Lumpur and by Mustapha's ties with influential officials in peninsular Malaysia. Mustapha's hints of secession a few months ago, however, impelled Kuala Lumpur to adopt stronger measures. Prime Minister Razak gave tacit backing to a new opposition party in the formerly one-party state and let the word get out that charges of corruption might be brought against Mustapha. The new party originally claimed the allegiance of a sizable group of state assemblymen, but its avowed supporters soon dwindled to five. This erosion was testimony to Mustapha's political clout.

Kuala Lumpur's actions nevertheless proved enough to convince Mustapha that the central government was after him in earnest this time. Despite his pre-eminent position in Sabah, he apparently decided that it would be politic to take advantage of Kuala Lumpur's willingness to let him retire gracefully. A strong vote of confidence in him by the state assembly last month removed any public intimation that he was being pressured out of office.

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The duties of office have had limited appeal to Mustapha, and he spent much of his time jetting about in his private plane or in residence at his retreat in England. More important to him are the profits from his varied business interests, which he calculates, probably correctly, will continue undiminished. His channels of influence remain intact. The new chief minister is one of Mustapha's henchmen who can be depended on to do his bidding.

Even though Mustapha will probably remain the power behind the scene, Kuala Lumpur is unlikely to be troubled by this. The federal government had long despaired of bringing the recalcitrant chief minister to heel, and it is probably satisfied that there will now be at least some lip service to central authority in its most distant state. (SECRET NO FOREIGN DISSEM)

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